

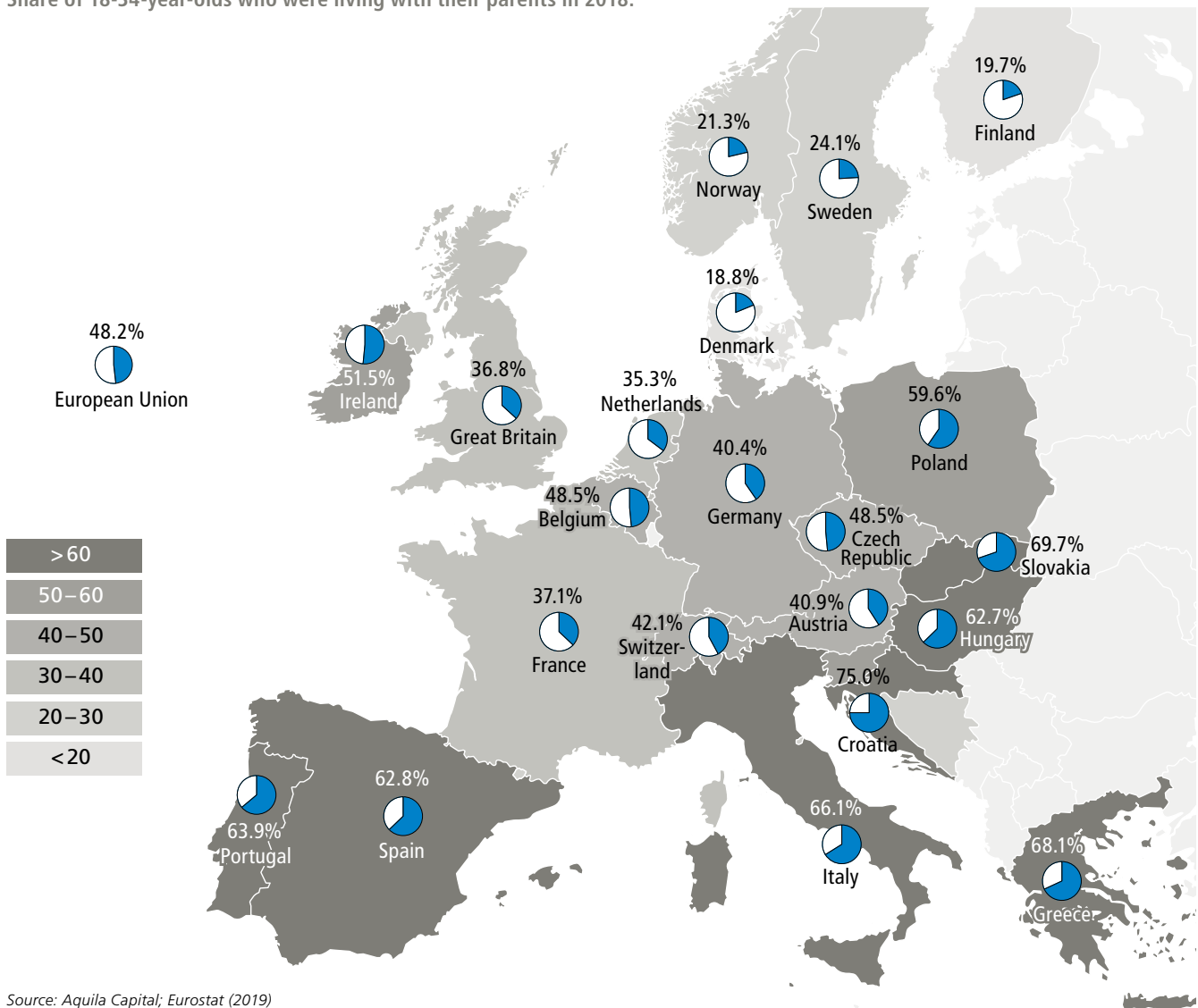
## AT A GLANCE

### COVID-19 and implications for residential real estate Spain – some first observations

Through our subsidiary AQ Acentor and with three offices across Spain, we develop and operate a portfolio of 6,000 units in the country's largest most important metropolitan areas. When we entered the market in 2014, we were one of the first who professionally developed built-to-rent apartments. Today we have the largest portfolio in the Spanish rental segment. So when it comes to Spain we care deeply about the way the market develops. The restrictive measures taken by governments in the various forms of lockdowns enacted

across Europe have been aimed at prohibiting the spread of the infection and but also at the most vulnerable members of our society, among them the elderly. However, in many instances this only concerns public life and not the private household where lives are much more intertwined, particularly in Southern Europe. The most populous and most urbanized countries, among them Spain and Italy, are the worst affected.

Share of 18-34-year-olds who were living with their parents in 2018.



Source: Aquila Capital; Eurostat (2019)

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In contrast to the northern countries, it is more common for children to be living at home with their parents until their 30s, due to the difficult housing and job markets, and for families to be more integrated across the generations. This has advantages but also has now shown to carry hidden risks. Two economists have demonstrated in a paper the high correlation between intergenerational housing conditions and the high mortality rate due to COVID-19. Apart from Spain, this is also true for Italy, which has had similar housing conditions since the financial crisis and reports an even higher mortality rate. As the true consequences of this pandemic on everyone's lives, irrespective of the country in which we live, will only become visible over time, we believe it might also influence the choices of the younger generations in Spain for moving out from their parents. But in order to make this possible the development of affordable housing is essential.

### **Spain: From homeownership to generation rent**

A structural change in society is underway. Over a long period from 1960 to 2007, rent payments were often considered a suboptimal investment. Rising house prices, government subsidies, and easy access to mortgages led to an increase in the number of homeowners to more than 80%. However, the global financial crisis and the resulting recession exposed the risks and led to far-reaching changes. On the one hand, there was an enormous drop in prices, and on the other, access to credit was reformed significantly. Most affected by these changes were the young adults who, as a result of the crisis and to this day, suffer from high youth unemployment.

In the age group of 18–29 who live independently, a decline in the ownership rate from 52% to only 29% in 2016 was recorded, accompanied by an increase in the rental rate from 38% to 53%.<sup>1</sup> This development has been and continues to be severely limited by the lack of properties. This transformation caused corresponding price shifts on the market, with rents rising much more dynamically until 2019 than purchase prices and income. Furthermore, the market is completely fragmented by private landlords who manage 95% of the portfolio, which is in many parts in need of renovation. This has created high barriers for young adults on the road to independence. In 2008, Spaniards under 30 on average had to spend 97.2% of their income on a mortgage and 60% on a flat to rent. Since then the ratio has shifted significantly. At the end of 2019, the proportion of income to be used for a mortgage fell by 30pp for this group, while 94.4% of income would have to be used for rent.<sup>2</sup> Especially in

Spain's economic urban centres, which are experiencing high population growth, it is almost unaffordable for a large proportion of young Spaniards.

As a result, today more than 80% of Spaniards between 16 and 30 still live with their parents. Thus there is a huge demand for affordable rental housing in Spain. Especially in the conurbations, where the economic recovery offers prospects for the young population. In addition to the demand for new construction of affordable housing, there is also a need to rejuvenate the stock and professionalise the rental segment. The Spanish government has also recognised the need for these developments.

*“Through a series of schemes to support rental housing, urban rehabilitation and renovation, the plan seeks to facilitate access to housing for the most vulnerable groups, and to reactivate employment in the construction sector.”<sup>3</sup>*

In Spain, a built-to-rent market is developing with great potential and high capital requirements, as regional developers often lack the necessary capital resources and thus access to financing. At present, however, the current crisis is making it difficult for most players to act.

### **Residential housing: Resilience in the face of uncertainty**

It is too soon to predict what damage the current health crisis will cause to the Spanish economy and the various sectors, but we do not expect a turnaround in the allocation to real estate. We expect an increasingly selective approach with regard to the types of use. It is undisputed that the logistics segment is currently considered as one of the winners, and we see some compelling arguments for the residential sector, which also has its advantages. The segment has repeatedly confirmed its strength, particularly in times of crisis:

The demand for housing is inelastic, which means that people have the need for housing regardless of the economic situation. In particular, the Spanish metropolises, including Barcelona, Madrid, Malaga, and Valencia, are characterised by high population growth and scarce supply, which means that the impact on rents and prices is expected to be marginal, if at all, and short-term. Furthermore, the government also supports tenants who are at the mercy of acute economic problems as a result of the crisis. This stabilises the residential segment significantly.

<sup>1</sup> From a culture of homeownership to generation rent: housing discourses of young adults in Spain (2018)

<sup>2</sup> Emancipation Observatory of the National Youth Council (2019)

<sup>3</sup> Housing Plan in Spain for 2018-2021 (ESPN Flash Report 2018/58)

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The advancing of a build-to-rent market in Spain reinforces the imbalance between demand and supply. From our local market insights, we see a high demand for affordable housing, due to the living conditions in Spain. Young adults should become independent and often urban centres offer better prospects. This goes together with demand for modern and intelligent design, considering the much-discussed homeoffice component will further strengthen this development. The trend towards urbanisation is likely to continue and a lack of affordable, modern housing to meet the demand persists. Despite the significant uncertainty we are recording sustained reservations and our constructions are going on without restrictions.

With our subsidiary AQ Acentor and three offices across Spain we are one of the most established providers of affordable housing, developing and operating a portfolio of 6,000 units in the most important metropolitan areas.

Gain more insight by visiting our homepage:



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